

MINUTES

FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE

February 20, 2013

A meeting of the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Tim Bynum, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Wednesday, February 20, 2013, at 4:00 p.m., after which the following members answered the call of the roll:

Honorable Gary L. Hooser
Honorable Ross Kagawa
Honorable Nadine K. Nakamura
Honorable Tim Bynum
Honorable JoAnn A. Yukimura, Ex-Officio Member
Honorable Jay Furfaro, Ex-Officio Member

Excused: Honorable Mel Rapozo

Minutes of the January 23, 2012 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting.

Upon motion duly made by Councilmember Kagawa, seconded by Councilmember Hooser, and unanimously carried, Minutes of the January 23, 2013 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee was approved.

There being no objections, the meeting recessed at 4:01 p.m.

The meeting reconvened at 5:24 p.m., and proceeded as follows:

The Committee proceeded on its agenda items, as shown in the following Committee Report which are incorporated herein by reference:

There being no objections, Bill No. 2462 was taken out of order.

CR-FED 2013-03: on Bill No. 2462 AN ORDINANCE AMENDING
ORDINANCE NO. B-2012-737 AS
AMENDED, RELATING TO THE CAPITAL
BUDGET OF THE COUNTY OF KAUAI,
STATE OF HAWAII, FOR THE FISCAL
YEAR JULY 1, 2012 THROUGH JUNE 30,
2013, BY REVISING THE AMOUNTS
ESTIMATED IN THE BOND FUND (*Hardy*)

Street Improvements *\$740,000.00)*
[Approved.]

Bill No. 2457 A BILL FOR AN ORDINANCE AMENDING CHAPTER 6, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO GENERAL PROVISIONS RELATING TO FINANCE, ESTABLISHING A RESERVE FUND AND A RESERVE FUND POLICY **[This item was deferred.]**

Chair Bynum: The Administration has come and met with, I believe, all of the Councilmembers expressing some concerns about next year's Budget and how it could be impacted should we pass this Bill. I wanted to give some perspective on that and see what the wishes of the Committee is. We have been discussing—we have had a Reserve Policy as a provision, a proviso in our Budget Ordinance. I spent considerable time, as did Councilmember Furfaro, and all of us working on and discussing the Reserve Policy. I believe with the Amendment that I prepared, is that the Policy is a good one that we should pass. I believe the Administration's concerns are that it puts constraints on their use of the General Fund. I wanted to show a couple PowerPoint slides to put this in perspective, because I believe my personal opinion is that we should pass this Bill in the form that I worked on with the Administration and the County Attorney's input. Whatever difficulties we have with budgeting this year, I do not know that we want to give up on the idea that we are going to keep a Reserve, and put limits on how the General Fund in parameters for all of the reasons we started this endeavor to begin with, and all of the rationale that was the Administration who initially ask us to address a Reserve Policy. The rationale was that the Counties were adopting them, and that we had a Reserve, and we have always had a Reserve, but that we needed policies. Those policies would reassure bonding agents and people who lend us money, that we had the proper fiscal constraints on the way we budget and how we administer our General Fund. I wanted to show a couple of slides because these next several of months is going to be a very challenging time for our County, for both the Administration and the Council to address our fiscal issues. There will be an upcoming agenda item in the Finance Committee, or I am requesting one to have a broad range, general discussion about the County's fiscal position, and a review of updated data from our historic Real Property Tax collections.

I believe this data is correct, and this is our total Real Property Tax revenue over the last eleven (11) years. Like a lot of our graphs that we are going to see, it has a rapid increase, it is a bell curve and it starts coming down. The County in just 2008, had ninety million dollars (\$90,000,000.00) in Real Property Tax revenues, and we are down this last year to seventy-nine dollars (\$79,000,000.00) or eleven million, four hundred and sixty-five dollars (\$11,465,000.00) less in collections. That is a very significant amount of money for the County to be bringing in as revenue less, than we were just a few short years ago. Add to that, the cap of Transient Accommodations Tax (TAT), which this year will probably cost us two (2) or more million dollars that we normally would have had in the past. It makes it really critical that we manage our revenues. I have been saying for three (3) years that we cannot allow this kind of revenue loss and maintain our level of services that our community is expecting. We were okay for a couple of years because we had a very large surplus in the General Fund. I did not put all these charts up here. We are going to save that for a few weeks from now. Our surplus went as high as fifty percent (50%) of our annual Budget, and it has come down

Mr. Furfaro: The current Budget that we are in, that money that is in that Proviso is intended for this year. This year does not end until June 30th. If the Budget Ordinance is the Law, if we are going to do modify that, we should have already had discussion about having to modify that Proviso so we can start the next year.

Ms. Esaki: Start the next year with a different...

Mr. Furfaro: No, but we were being told that everything that has been earmarked in our Audit, the \$15.3 million dollars is going to be used in next year's Budget. That money is in that Proviso.

Ms. Esaki: That money currently is in this Budget Proviso; however, going forward in next year's Budget, the numbers will change.

Mr. Furfaro: My question is, is that Proviso easy to just change direction without having dialogue with the Council?

Ms. Esaki: I am told that the number is still there; however, for next year's Budget, it will not be there.

Mr. Furfaro: That is what we were being told.

Ms. Esaki: So for next year's Budget Proviso, the number will change next year, not currently this year if the number is there.

Mr. Furfaro: The rest of the part of my question is for five (5) months actual for this year, plus two (2) months that we have already closed, but we have not seen the financial, and five (5) additional months yet to be forecast, we do not know how much money will be available to us. In fact, if you take the five (5) months actual right now, Steve, we are four million dollars (\$4,000,000.00) under what we said we were going to spend. That was the copy I sent over to you, and my presentation to the Cost Control Commission for them to watch that each month. It is five (5) months actual, two (2) months yet to be reconciled, and then five (5) months of yet to be determined expenses. I have to assume that if we are getting into a tight period, the message you are currently telling the Department Heads is to "watch your spending." I want to know what the status is of a Proviso that is in the Budget. As far as I am concerned, that is Law.

Ms. Esaki: The Budget Proviso is Law, unless it is proved to be invalid.

STEVEN A. HUNT, Director of Finance: I see your point because you are talking about fiscal 2013 not closing to June 30th, yet Budget is going to be coming March 15th, and we are going to have that lapse...the overlap, and we are going to be asking to use funds, potentially from that is still covered by the Proviso. Until that Budget is passed as a new Ordinance, then it supersedes.

Mr. Furfaro: Because of that, I am so glad that the Charter Amendment that asked us to have only one look at the Budget did not pass. We have a lagging problem here. We will not know what is actually available to be used until we have a very accurate eight (8) month forecast—eight (8) months actual and four (4) month forecast, then we will get some kind of an idea of how much of that Reserve in the Proviso can be tacked. Because of that reason, for me, I

would say that we have a timing issue that needs to be worked out first, before we start making commitments about a Reserve now. Nobody understands the sequence of Cash Flow, which is a separate item altogether with Budgeting. That is one of the reasons I sent over my requirements of you folks this year is that I want to see “actual” compared to “actual,” compared to “actual.” Budget that went away two (2) years ago, Budget that went away a year ago means nothing to me. It is what you are actually spending, comparing actuals, but we have a timing issue here, Steve that is in this case—excuse me, I was almost going to say “damn.” I just said it. Pretty damn important. Until we understand this, it is kind of hard promoting policy, especially since that number right now is Ordinance. It is in the Ordinance, it is Law. You agree with me, that it is Law as a Proviso in the Budget?

Ms. Esaki: It is.

Mr. Furfaro: Thank you. Mr. Bynum, thank you very much.

Mr. Bynum: I am going to go to Mr. Kagawa next, but I have a follow up.

Mr. Kagawa: Steve, congratulations. Welcome to the hot seat. We both have something in common. I have come into the Council at a time where it is very financially challenging. You are the man that is in charge of the finances. I do not think the County has ever been this challenged. I welcome you. I trust that with your years of experience, you can help lead us in a better direction, hopefully. *Mahalo*. I just have one question. This is directly related to the item. What is your recommendation for this Reserve bill that we have in front of us?

Mr. Hunt: I have read the most recent Amendment that Vice Chair Nakamura sent over. I have not had the pleasure to read the two (2) other versions at this time. This is my only exposure to the Bill. I think a Reserve Policy is very prudent. I think it has to be developed to cover not only just the unknown rainy day, but also potential spikes in Cash Flow needs. There are potential issues where if your Budget is so tight that you do not have the cash Reserves to cover, that you have to have a Reserve to cover those cash calls. We could end up with an Accounts Payable issue if we do not have a Reserve Policy. It gives more flexibility for purchases such as Black Pot Beach, would have been a spike if we did not have coverage in cash that we could not have pulled off. I think a Reserve Policy is good to even out the payments that come in and specific periods of time, primarily the Property Tax payments come in two (2) periods of time, the TAT taxes come in, and a franchise fee comes in. It is not even. I think a Reserve Policy as a whole helps the County from a Cash Flow perspective. That being said, where we stand today with our Reserve, our Unassigned Reserve, what you would be asking would be to increase the Budget even further to fund a Reserve Policy, which is likely increasing fees, taxes, further potential cuts, and I do not know if we are prepared to go down that road right now.

Mr. Kagawa: When you started out, I was prepared to vote “yes.” Then you came to the second part, and now I am worried about the voting yes today, I have no more questions, thank you.

Chair Bynum: If we were to pass a Reserve Policy, it would supersede the Proviso, right?

Ms. Esaki: If we were to pass the Reserve Policy today...

Chair Bynum: Reserve Ordinance.

Ms. Esaki: Reserve Ordinance, then yes...

Chair Bynum: It would replace the Proviso?

Ms. Esaki: Yes.

Chair Bynum: With all due respect, Steve, what you just said about if we pass a Reserve Policy, "we will have to fund it," I do not know if that is accurate at this point. You are looking at next year and what our needs are. Right now, we have Reserve of "X" amount of dollars at a certain percentage. I think we should play out this discussion. Scott, can you pass out the blue spreadsheet?

Ms. Esaki: Councilmember Bynum, the other thing, too, is that if you are passing out your Reserve Policy that you are drafting, you probably would have to repeal this section of the Budget Ordinance as well.

Chair Bynum: Well, you should have told me that weeks ago.

Ms. Esaki: If its inconsistent with this Provision.

Chair Bynum: If we look at this Comprehensive Annual Financial Report (CAFR) numbers right here, right now, we currently have at the end of the Fiscal Year, a General Fund Balance, Unrestricted, of \$44,205,000.00. Under this Policy—and that is thirty-six point five percent (36.5%) of a year's General Fund Expenditures, plus transfers out. We currently have a Reserve of thirty-six point five (36.5%). The target is twenty-five percent (25%). So twenty-five percent (25%) of one twenty-one, one eighteen (\$121,118,000.00) is what? I should have had that number already. Twenty-five percent of one twenty-one, one eighteen (\$121,118,000.00)...one hundred and twenty million (\$121,000,000.00).

Ms. Yukimura: Thirty million (\$30,000,000.00)?

Chair Bynum: Right. Thirty million, two hundred and seventy-nine thousand (\$30,279,000.00). If we were to pass this Budget Ordinance today, under the terms of the...you would have thirty million dollars (\$30,000,000.00) would be your target Reserve at twenty-five percent (25%). Of that thirty million (\$30,000,000.00), you can use fifteen million (\$15,000,000.00) to assign to balance next year's Budget. The money that is above that, which is roughly fourteen million (\$14,000,000.00), would have to demonstrate a plan of how to bring the Reserve down into the twenty-five percent (25%) range. That could be diverting those funds into Economic Development Projects, or Capital Improvement Projects (CIP) Projects. You could conceivably do it all in next year's Budget, and bring the Reserve Policy in, but the restriction it would put on you guys for the first time ever is saying, "You can only use fifty percent (50%) of the twenty-five (25%) to assign to the Budget. If you look at this chart, over the last fifteen (15) years, for most years we have met those parameters. We have been in the twenty percent (20%) to twenty five (25%) Reserve range, and in most years, we assigned...in those years when we assign more than half of it, like the ones that are highlighted in yellow in 2001 and 2002. If that Reserve Policy would have been in effect those years, the Reserve was twenty-five (25), then it went to twenty (20), so for both years it was within the range. In that year, the General Fund Balance was fourteen million

dollars (\$14,000,000.00) in 2001, and seven million dollars (\$7,000,000.00) was roughly assigned. That is the fifty percent (50%). That is a few dollars over, right? So in that year, everything fell within those parameters. At the end of that Fiscal Year, it was one of the years we actually dipped into the Reserve by \$1.8 million dollars, right? At the end of the Fiscal Year, even though we had assigned almost the Budget, there was net decrease in the Fund Balance, which brought it down to twenty percent (20%), that was still in the range. No harm, no foul. We are in the twenty (20) to twenty-five percent (25%) range, but in the subsequent year, the constraint would be, "Hey, we established the Reserve at twenty-five percent (25%) max, half of those Assigned Funds, you can use to balance the Budget, the other half you cannot. In every year when I look at this from 1995, that we had to dip into the Reserve Fund, or if the Policy had not been in place, constrain the assignment. We would have constrained the assignment, but then in the next Fiscal Year, we did not spend all of those funds anyway. We were easy within the parameters. Over the last fifteen (15) years, we would have had to make fairly minor changes in our Budgeting. We would have said, "Wait a minute, you cannot assign quite that much." It would have required to Budget to be a little tighter, or to spend a little less, or to generate a little more revenue. There are all these different levers to try to deal with it. Right now, I think the basic parameters of the Reserve Policy is all of the General Fund Expenditures, plus transfers out is your target number. The twenty percent (20%) to twenty-five percent (25%) is the Reserve Range. When you establish that Reserve, half of that can be used for budgetary purposes. That will put some constraints. I look at our last fifteen (15) years and say, "We could have fairly easily budgeted within those constraints." What is the circumstances that if next year, you have fifteen million (15,000,000) you can assign, and another fifteen million (15,000,000) set aside for that disaster. What would keep us from budgeting within those parameters?

Mr. Hunt: That would be fine if we had thirty million dollars (\$30,000,000.00) to begin with. What you are missing here at the end of the fiscal period is that you have already committed some of those funds to the Fiscal Year Budget that you passed in May. There is a lapse.

Chair Bynum: As Mr. Furfaro said, "We do not know what our performance is on that." If it is like many other years, we are not going to spend all of the money we budgeted. It would be very unlikely. If it is like most of the other years, our revenues may be slightly higher than we predicted.

Mr. Hunt: If you also look at your very own slides showing the Expenditures continued to be straight-line while the revenues were declining, for three (3) years now, we have been running that deficit, which has been a burn rate of that Reserve. That Reserve has dwindled down to the \$15.4 million.

Chair Bynum: No, the Reserve is forty-four million (44,000,000).

Mr. Hunt: The Reserve is no longer forty-four million (44,000,000). If you take the forty-four million (44,000,000) Fund Balance at the end of the fiscal, and you back out the restricted four ninety (490), there are encumbrances at the end of the year with about 4.8...

Chair Bynum: Committed.

Mr. Hunt: Fifteen (15) committed, correct; and fifteen percent (15%) of the Reserve for disaster response, which is about 3.8. You are also using

the unappropriated surplus of 14.4, and there was a use of Reserve balance going into the fiscal 2013 Budget. That was about 18.5, and self-insurance provisions at about 1.7. That leaves a remaining Fund Balance of 15.368.

Chair Bynum: Those were Budget numbers. This is the same frustration I had since we started this discussion three (3) years ago. Do not mix actual performance with Budget plans that we never follow.

Mr. Hunt: But the difference between the Budget and the actual, if there is an increase, funds the surplus, right?

Chair Bynum: Yes.

Mr. Hunt: Okay. If that gap between revenue and Budget, and even in actual in this case, if you are plugging in the actual, you are still getting a burn rate where we are not meeting the revenue requirements.

Chair Bynum: Then we need to manage our revenue.

Mr. Hunt: I would agree with you.

Chair Bynum: We cannot continue to give thirty million dollars (\$30,000,000.00) of tax relief to a whole bunch of tax categories for four (4) years straight. We cannot just keep having losses of revenue, especially when our citizens, the people the live and work here are not getting reductions; they are getting increases. We need to manage our finances. To have any kind of thing like that, I would argue that when our revenues were sky-rocketing, we should have been lowering taxes. We should have been managing it then. When it started coming down, and because we have such a big surplus, we had a year or two (2) that we should have reduced everybody's taxes, but we did not. We reduced certain groups of people at the expense of others, and we continued to do that for the next three (3) years. We are going to discuss at length, but for some of the people who got ten million dollar (\$10,000,000.00) of reduction, the really unfortunate word is going to be, "We should not have allowed that to happen, but we did. We are going to have to increase your tax rates so you pay more than you did last year, but not as much you did in 2004." We have allowed those losses of revenue to happen. We have allowed two (2) years in a row to have the surplus diminished, and it may again this year, but it is not going to fifteen million (15,000,000), Steve.

Mr. Hunt: Getting back to the point of the actual Reserve Policy, my concern is that with our existing Reserve Balance, if you are asking to have that, essentially the fifteen million (15,000,000) as your target, we are going to have to increase revenue sources to fund the Reserve to meet your requirement. There is not forty-four million dollars (\$44,000,000.00) in the Reserve. If you are counting on...

Chair Bynum: Actually, our target is thirty million (30,000,000).

Mr. Hunt: Okay, thirty million (30,000,000).

Chair Bynum: Okay, and what we know in reality that is actually audited, is we started the Fiscal Year with forty-four million (44,000,000), right? So we actually have more under our Reserve Policy, and we would need to bring that down some. Now if at the end of the Fiscal Year, it falls below twenty percent

(20%), then we need to address that in the following Fiscal Year. You do not look at what your Reserve Fund is now, and say, "Well, we budgeted a bunch of that, and so we need additional money before we even know what the outcome of our Fiscal Year is." I do not think there has ever been a year that we spent—we know, it has been for the last fifteen (15) years, and the last two (2), as we dipped into that Reserve, it is like, "Okay, dip in." We need to get the revenues—the Expenditures and revenues closer to equal, which we still need to do. We do not sacrifice—are we going to bring the Reserve to five percent (5%)? We have never done that in the history of the County. If we do what you say, we are not going to raise revenues, we are going to use this Reserve, and by you limiting us to only twelve and a half percent (12.5%) of it, we cannot Budget next year's, so we are going to below five percent (5%), right? Six (6%)? What is our Reserve going to be if we commit it all?

Mr. Hunt:
have a Reserve.

Well what if we commit it all, we are not going to

Chair Bynum: Which would be highly irresponsible. I do not think we should give up on having a Reserve Policy. We should set a policy. This is the most generous Reserve Policy I have seen in any municipality in the Country. They usually are five percent (5%) to fifteen percent (15%). Twenty (20) is almost unheard of. Twenty-five (25) is very generous. If we cannot run this Government under those parameters, and we are not afraid—I mean if we are too afraid to say to our citizens, "Hey, this is what Government does for you. We have to fiscally fund this, and we should not have allowed these taxes cost us to have these huge reductions over in just a four (4) year period." We are going have to say to those tax payers, and I will do it. That is being fiscally responsible. We cannot keep spending more money than we bring in. We could only do that, because we cannot legally do that like the Federal Government can. We can only do that until the Reserve is gone. I do not want it to be gone. I want it to be twenty-five percent (25%). Everybody wanted a generous Reserve. That gives a generous amount for you to balance the Budget. If you say, "Revenues are one hundred (100). Expenditures are one hundred (100)." Then, you do not need to dip into the Reserve at all, right? Every year, we should have a Budget that we present that Revenues are going to be sufficient. We have not done that the past two (2) years. If this Council says to you, "We are going to keep the Reserve at thirty million (30,000,000)," you have to figure out what to do with the difference, but you get about fifteen (15), and you have nowhere to move forward. That is it. We have fifteen million (15,000,000) we can use of the Reserve to balance the Budget. You have to give us a balanced Budget, so if we say you get fifteen (15), the rest has got to come either through reduced spending, or increased revenues, right? That is Finance 101, but I do not think the Council should say, "Okay we have been saying we wanted twenty-five percent (25%) Reserve, but let us not pass any Reserve Policy and let it go to five percent (5%) or ten percent (10%) this year, because we do not have the courage; and if this is offensive, I am sorry, but do not have the courage to say, "Hey, we messed up, and we let all that revenue go. We were asleep at the wheel." It would have been much nicer for tax payers to say, "Okay, you have come down some, and now we are going to level off." Your taxes are not going to go up, but they are not going to go down, because we have to maintain this level of services. We did not do that. We let it keep falling, even when we knew we were not bringing in enough revenue to fund our activities. Yes, Councilmember Yukimura.

Ms. Yukimura: Steven, you folks, the Administration, briefed all of us individually. I do not know if that was ever made public, but you showed how year after year our Expenditures have been increasing, and getting dangerously

close to not being supported by the revenues that we get. To me, this Reserve Policy is a discipline that will allow us not to keep going in that direction. It is not about trying to fund more of the Reserve, I think it is trying to make sure that our revenues match our Expenditures, and the Reserve Policy actually gives us the discipline to do that; otherwise we are forever just kind of moving our Reserve forward, and not making us face the reality of our Expenditures ever increasing without a appropriate increase in revenues.

Mr. Hunt: I do not disagree that a Reserve Policy is good to have, but my concern is the financial reality where we are. If our Budget is a one hundred million dollar (\$100,000,000.00) Budget and you want a twenty-five percent (25%) Reserve Policy, that is twenty-five million dollars. (\$25,000,000.00) If we have 15.5 there now, we have to raise roughly ten (10)...nine and a half million (9,500,000) to hit that Reserve Policy, and then we have to find money to balance the Budget if we do not have it. If our current Expenditures is one hundred and ten million dollars (\$110,000,000.00), we need ten million (10,000,000) to cover our Expenditures, plus we need ten million (10,000,000) to cover the Reserve Policy. If you are asking we can borrow half of that, we can meet that, but we are still at the point where we have to raise the revenue to fund that Reserve. The Reserve does not exist yet.

Ms. Yukimura: It is not funding the Reserve, it is funding the Expenditures. It is funding the Budget, which includes the Reserve, but it is not about funding the Reserve, it is about actually funding the Expenditures that we want to make or think we need to make. It really is the discipline that says either we reduce Expenditures, or we increase revenues. That is what you are avoiding by not forcing a Reserve. Maybe because of our past actions, which have created this widening gap between Reserves and revenues, we may have to this year, go with a smaller Reserve, and increase revenues but not as much as we have to, to make up for the past years of not raising revenues, and then move gradually so that you can move into a larger Reserve, and do the increases in a more incremental over the years...increase the revenues. Right now, I feel like the Administration is asking us to not go through that discipline. And to not go through that discipline is going to bring us more and more into trouble, it is going to widen the gap that we have to eventually close. It is going to be more problematic. To me, this Reserve is a really good discipline. You may set it at maybe not as generous amounts, but it has to be part of a revenue plan that will allow us to address this problematic gap, ever widening gap.

Mr. Hunt: If the Reserve requirements are not met currently, and we have to fund it because you are giving us a percentage of the Operating Budget that has to be the Reserve, then that is an Expenditure.

Ms. Yukimura: Yes, but you can say, "We have to fund the Reserve," but actually, you are funding whatever part of the Budget you are having to fund.

Chair Bynum: I think we are really have a problem with semantics because in the Budget proviso, we said fifteen percent (15%) to twenty percent (20%) is the Reserve, right? We were not allowing any of that to be assigned to Budget, right? We had to have that money plus, more General Fund Balance used for assigning, right? This Reserve Policy says that we are setting this figure, but half of that can be used for budgetary purposes. It is not until you go through the entire Fiscal Year and get the CAFR, and it comes out and it says, "Oh,

you dipped below twenty percent (20%),” then in the subsequent year you say, “How are we going to make this up.” There is a time here. Right now, you say the Budget is fifteen (15).” That is because we set aside this whole chunk that you could not use. That is not accurate to say it is fifteen (15). It is forty-four (44). That is not my opinion, that is our audited report. We are setting a policy based on CAFR numbers, and then we have to perform within those constraints. Supposedly we could just say, “Let us just forget about Reserve Policy for a couple of years and see what happens.” I do not believe it is going to go from 36.5% in the next CAFR to below twenty percent (20%). The bottom line is that if we adopted this the way it was next year, you could assign fifteen million (15,000,000). Councilmember Hooser, and then Councilmember Kagawa.

Mr. Hooser: It seemed to be that you said you thought a Reserve Policy was a good idea, but not. What would be the amount, if you assume for a second that it is a good policy for the County not to spend all of its money down to zero every year, and we never have and always had a Reserve; what would be a Reserve amount that you believe would be prudent to keep for emergencies, (inaudible) and not budget out of that number?

Mr. Hunt: Only having been on the job two (2) weeks, I really have not seasoned enough to have a long term perspective of that requirement. My concern with the Reserve Policy is more Cash Flow oriented than it is a Reserve Rainy Day Fund. Both are important, but I can see where the Cash Flow needs could be spiky, where we have draws that we do not have funds for from the General Fund that need a Reserve for that. As far as the Rainy Day Policy for disaster relief, other things that need to be there; again, at this point, I do not think I am qualified to make an informed decision on that amount.

Mr. Hooser: There are industry standards, that kind of thing, right? There is history of the County, of what we have been through. You do not have...if the number being put forward is too high, what would be the number? We are trying to make a good policy decision here, and rather than just saying, “No, do not do it,” I would like a little guidance from—I think that Chair Bynum is on the right track, quite frankly. I think looking at the CAFR numbers and looking at the past history, and what is good public policy; I think having a Reserve Fund (inaudible) is a good idea, and I want to support that. I would appreciate having—if you have additional guidance to give, I would like to hear it. Otherwise, I think I will support this. The Chair has done a lot of work on it, and accept his numbers.

Mr. Hunt: Do you have a copy of the CAFR before you? Anyone? Can we get that. Okay. On Page 127 of the CAFR, which this is the Fund Balances. These are really the General Fund draws, and when you take into consideration the Committed, the Assigned, and the Unassigned; the Unassigned is really—this is really what we have banked. As of 2012, the end of that Fiscal, we have 15.368 million banked. That is our true Reserve. Assigned and Committed...yes, there was in 2011 when we Assigned all of the Reserve, then we did not have any Unassigned, but really, it is this unassigned figure that represents what we have as a Reserve.

Chair Bynum: No, I am sorry, that is not it. This is part of the challenge that we have, Steve. You are the most knowledgeable guy in our County about Real Property, bar none, but you have not been in on these discussions. I said this to Gary Heu and the Mayor, “Real Property, he knows that stuff really well. Your Budget team is new, and is learning these things, but who has the big

picture?" You should not Assign, Unassigned—those are subjective numbers that we decide. You have to base these on objective numbers, real numbers, of what we actually did. If you look at this chart, we assigned every single year money from the Budget, but in most years, we did not spend any of it. In fact, we had an increase. Let us just look at the last four (4) years. We Assigned eleven million (11,000,000) in 2009. We did not spend one penny of that Assigned money, in fact, we had an additional 8.9 million, so our Fund Balance went up. The next year, we Assigned nineteen million (19,000,000), but we did not spend any of that nineteen million (19,000,000), we actually had an additional fourteen million (14,000,000) above that. Now, then it dramatically turns around, right? The next year, we Assigned almost every penny that we had, fifty-one million (51,000,000). Did we actually spend? We actually spent nine million (9,000,000) that year. That year, that change in Fund Balance went down, right? Then the following year it went down. This year, we do not know yet, but we should be able to predict. That is what to some extent, the Budget team should be able to predict that. The Finance Department, by looking at our Budget versus Actual, which Mr. Furfaro does routinely, and I do periodically. So far this year, we need four (4) million dollars less spending than we projected in this Fiscal Year. When we end this Fiscal Year, will we reduce our Fund Balance or not? We do not know. We should not make decisions based on Budget plans, we should make decisions based on our actual behavior, and the Reserve Policy should be made on that. Mr. Kagawa.

Mr. Kagawa: I think we are basically getting answers from the Department of Finance. You have your own interpretation. I have heard this discussion twice. I think it is not getting anywhere when both sides are bringing up different interpretations of what the Fund Balance is in. I would really like to just call for the question.

Mr. Kagawa moved to receive Bill No. 2457 for the record, seconded by Ms. Nakamura.

Chair Bynum: Okay, any further discussion? The motion is to receive which means we do not have a Reserve Policy. Councilmember Nakamura.

Ms. Nakamura: I believe that the motion on the table...the only motion that was made was to initially approve Chair Furfaro's original Bill, and there was no submission of Amendments.

Chair Bynum: That is correct.

Ms. Nakamura: I know that you had an Amendment. I had an Amendment that I had...

Chair Bynum: I did not know that was a separate one.

Ms. Nakamura: I did do a separate Amendment. After my briefing with the Administration, I am concerned about the financial situation of the County of Kaua'i. I believe a Reserve Policy is needed. The Bill that I worked on is actually a very simple Bill that I wanted to share and spend some time deliberating with you. I am also feeling that we have in the past, from my understanding, we have through Budget Provisos created Reserve Funds. In this current year, we have pretty much fifteen million dollars (\$15,000,000.00) in that Reserve Fund, and it came out of the Budget process, the deliberations, looking at the revenue and expenses, and out of that whole process in the end, we ended up with a fifteen

million dollar (\$15,000,000.00) Reserve that represents twelve percent (12%) of General Funds plus transfers. There is a way to do it, but I believe that a tighter structure is important. I want to thank you for putting the effort into your Bill, and I just have a different approach to doing it. I am feeling this year that because of the constraints, the need to do revenue enhancements this year, more than any other year, that we really need to look at it in totality, and I believe the best time to do that is during the Budget process for this year. I really want to keep this on the table. I really think a formal Reserve Policy would be a good thing for the County. I would like to pass something this year, but I am feeling that let us get through this Budget. This is going to be a very difficult Budget, but keep that Reserve Policy Ordinance on the burner.

Chair Bynum: Councilmember Yukimura.

Ms. Yukimura: I am not an official member of this Committee, I am an ex-officio, so I will not be voting, but I do not think a Reserve Policy can work well if you do it when the Council is doing its Budget. I think it has to be set and give guidance to the Administration when they are developing their Budget. That is what will, I think, support the Administration in developing some really creative and thoughtful revenue proposals. To have the Council do it after the Administrations' Budgets come to us, will actually make it more difficult for the Council. I think a Reserve Policy is overdue and is necessary if we actually discipline ourselves to do good budgeting on a long term basis. That is why I would support a Reserve Policy passed by the Council now.

Chair Bynum: Councilmember Hooser.

Mr. Hooser: I want to echo a little bit about what Councilmember Yukimura just said. I had some reservations earlier on the Policy, and still think it deserves more work and more thought, but I am not going to support a motion to receive. I want to move forward and establish a Reserve Policy. It is never a good time, I suspect of the Administration, and most in their position...the fewer restrictions on their activities, the better in some ways. I am sure they do not feel that way, but I think it is our responsibility to provide that guidance and structure to ensure that our funds are properly spent. I would also like to see a Reserve Policy move forward.

Chair Bynum: Councilmember Kagawa.

Mr. Kagawa: Yes, and I said it before. The last time we discussed this item, the Reserve Policy is a great idea, just not now. We are in uncharted waters. You see the lines going the wrong way. You see the revenues going down, expenditures going up. We know how tough it is to cut expenditures in Government. It is tough just to keep it the same. With our revenues going down, and expenditures staying the same, we are still dipping into that Reserve as we have been for the past couple of years. If we do approve this Reserve Fund now, we could be setting ourselves to force ourselves to approve of highly increased tax rates upon our residents, or our visitor industry. When you are in a recession, that is not the wisest thing to do, which is to take money out of your visitors and our residents' pockets. I think if we could just hold our tax rates, let us wait for the Federal and the State Government to get by their cliffs, whatever they are facing, and I think on the County end, we are in better shape, but to approve of a Reserve Policy, especially as high as twenty-five percent (25%) right now, would be reckless in my

view. I cannot see myself approving of any tax increases in this upcoming Budget. *Mahalo.*

Chair Bynum: It seems based on the previous discussion...well, I already made my point clear. I think we should pass this Reserve Policy and put those constraints. If we are not, I would suggest that rather than receive the Bill, we defer it pending the outcome of the Budget, so we can bring it back in June, and then we can look and see...I think...I already said my point, but I rather see it deferred until after Budget and bring it up back, and then we will know—or even after CAFR. When is CAFR...no, that is too late. That is too late. I am very intrigue by what Councilmember Nakamura said because I worked my butt off and trying to put something forward that I thought was standard practice, but I really welcome other takes on this and about other ways we could go, but I also want Mr. Kagawa to understand that if we pass this Policy, it constrains spending to some extent.

Ms. Yukimura: Yes, I just wanted to respond to Councilmember Kagawa, too. You do not have to set it at twenty-five percent (25%). You can set it lower, but still begin with some level of Reserve. If that amount is too much, I do not know if that should end the discussion because you could look at a lower Reserve level and see how it works. I think it might end up with a tie vote, which means that neither a motion to receive, nor a motion to approve will pass. It seems worthy of discussion. I would love to hear Councilmember Nakamura's detailed ideas because even if it is received or deferred at the end, it still furthers discussion on a subject that at some point, we would want to talk about it. I am not talking about hearing your points tonight, but a deferral to the next Committee would allow us to at least not a dinner hour try to discuss it. Even if at the end we decide that it is received or deferred further, I think it is worthy of more discussion.

Chair Bynum: I would love to discuss this more with the Administration and Steve, so...it is 6:30 p.m., so I would really like to ask this Committee to defer for two (2) weeks, and ask for it to be first up on the agenda in two (2) weeks because this is a detailed and complex discussion, and when we are fresh, we are going to be in a better place to do that. If it is the Committee's sense that they want to receive the Bill or defer it, okay, but we should give it one more shot and time to hear Councilmember Nakamura's proposals. That would be my preference. Councilmember Hooser, and then Councilmember Kagawa.

Mr. Hooser: Yes, I would prefer if nothing is going to pass today that we defer for two (2) weeks. I would like to hear the Administration's perspective on what amount they would think would be appropriate, rather than just saying no. I would also like to hear the other proposals on the table. I do not believe that putting it off to after the Budget is going to further the discussion as much as it is to discuss it right now. You could always implement it at a later day. You could pass something with a later effective date if we were concerned, or if it was an in opportune time because of the Budget, but I would like to see a discussion move forward.

Mr. Kagawa: The reason why I think it is useless to have it deferred for two (2) weeks is because we are asking the same questions. We are asking them basically to change their number of the Fund Balance, and they are not going to change. They have stated it. Their view is that liabilities do not count to our Fund Balance, or our savings, which we may use for that Rainy Day Fund, or whatever. In their view, liabilities need to be taken out of the savings because it is

hold for something else. That is how accounting is. I graduated in Accounting. I know what a liability is. You do not count money that you have where you owe it to somebody else. It is not your money. It is a liability. We have heard it here today. They are very uncertain. Mr. Hunt is starting at the most troubling time ever in the County's financial history. We have expenditures that have exploded. We have appraised values that are dropping. I looked at my own Real Property Tax Bill, and I paid about one hundred dollars (\$100.00) less last year. If you times that by all of the local residents, that is why you saw the dip in the revenues. We have to use the same policy that increased our Property Taxes over the years. We were flipped out when we saw our Property Tax Bills go up six hundred dollars (\$600.00), or whatever, when the values were going up. We were mad. "How can they increase it that much?" That is the same formula we are using now as we used then. We paid a lot when the market was good, and we are paying less now that the market is dropping. It is what it is, but it is going to be tough this year just getting by and hoping that we do not have to increase our taxes. We have a big job in front of us, and to even think about what kind of savings we are going to have after, to me, is wasting some time. I am ready to vote. I am ready to get to the Budget, and once we get through the Budget, I want to work on Mr. Bynum's idea and hopefully, we will have some brighter days ahead of this year, but for this year, I am really worried and I think I am getting some gray hairs over what is to come. Somehow we will do it, work together, and we will get through this Budget. I want still want to receive, but I am open.

Mr. Hooser moved to defer Bill No. 2457, the motion failed for a lack of a second.

Ms. Nakamura: Do you have a date specific or...

Mr. Hooser: Could we give the Administration...can I ask the Administration the question? If we gave you a month would you be able to come up with a recommendation on the Reserve Policy in terms of how much time you would need? I mean, in terms of what type of Reserve Policy you would be willing to support?

Mr. Hunt: I do not know if a month is going to do it because our focus is on the Budget, and the Budget will dictate of what Reserve, if any, will be left.

Mr. Hooser: My question is not what will be left in the Budget, my question is "What would be a prudent Reserve Policy for the County of Kaua'i as a Policy that we should follow? Not what would be left. We need money in Reserve for emergencies and for unexpected stuff. They serve as a chrisom. We need to have a target for that amount, and whatever that amount is, and then we have to make everything else work. It is not funding the chrisom, it is establishing what that amount is and funding everything else. Thank you.

Ms. Nakamura moved to defer to June 19th, which is a Committee Meeting following the Budget, seconded by Mr. Kagawa.

Mr. Hooser: There is no discussion after a motion to defer.

Chair Bynum: Oh, you made a motion?

Ms. Nakamura: I made a motion to defer to June 19th.

Mr. Kagawa: I seconded.

Chair Bynum: All those in favor?

The motion to defer was then put, and failed by a 2:2 vote. (*Mr. Hooser and Mr. Bynum voted no.*)

Chair Bynum: Let me take one more shot at this and see what happens.

Ms. Yukimura: Just say "motion dies."

Chair Bynum: Motion dies. The fifteen million (15,000,000) that Steve was talking about is based on this Budget that we are in now. That constraint goes away at the end of the fiscal year, and can be replaced by a Reserve Policy. I do not want to let this go to until June. I want to tell the Committee members now, I am asking for a posting on the 20th, that I expect will take two (2) to three (3) hours to go over the Real Property Tax data and have a broad discussion about our Fiscal condition and what are the challenges that we face going into Budget. I am asking for that posting from the Chair on the 20th. I am just reacting to a note I got that Gary is not here on the 6th. It will be a big day, but if a deferral to June did not pass, if we do it in two (2) weeks, Gary will not be part of that discussion, and it is really critical. As an alternative, I suggest we defer this Bill until the 20th, and I will make a request today to have the Finance Committee be up first on the agenda on that day, so we can discuss this early in the day, rather than when we are tired and it is 6:00 p.m.

Mr. Hooser moved to defer Bill No. 2457 to the March 20th Committee Meeting, the motion failed for a lack of a second.

Mr. Hooser: Can the Chair second?

Chair Bynum: I do not know, can the Chair second? I do not think so. Okay.

Ms. Yukimura: Does it not get automatically deferred if nothing happens? Adjourn the meeting.

Chair Bynum: Can I do that? Where is our Clerk? I just do not know how to proceed here. We have four (4) Committee members. We have had a 2:2 tie, which means the motion does not carry, so we need to do something. Will somebody...

Ms. Yukimura: Does it not automatically...

Chair Bynum: If we just adjourn the meeting, it will automatically come back up in two (2) weeks, right?

Mr. Hooser: A point of clarification, Chair. I wanted to clarify that the Chair cannot second the motion? I guess it does not matter because...

Chair Bynum: We had a 2:2 tie vote, so I think we can adjourn the Committee, and under our Rules, this will come back up in two (2) weeks. Given

that none of the motions got seconded or could prevail, this Committee is adjourned, and I will see you all in two (2) weeks.

Bill No. 2457 was deferred pursuant to Council Rule No. 5(f), Committee Absence, Tie Vote.


There being no further business, the meeting was adjourned at 6:45 p.m.

Respectfully submitted,



Codie K. Yamauchi
Council Services Assistant

APPROVED at the Committee Meeting held on March 20, 2013:



TIM BYNUM
Chair, FED Committee